

TENNESSEE GENERAL ASSEMBLY
 FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

SB 409 – HB 494

May 1, 2017

SUMMARY OF ORIGINAL BILL: Requires certification of special census results for municipalities to be sent by the Federal Bureau of the Census (FBC) or the Department of Economic and Community Development (ECD) to the Commissioner of the Department of Revenue (DOR), in addition to the Commissioner of the Department of Finance and Administration (F&A).

FISCAL IMPACT OF ORIGINAL BILL:

NOT SIGNIFICANT

SUMMARY OF AMENDMENT (008245): Deletes all language after the enacting clause. Removes the cap on the amount of state shared sales tax revenue for Gatlinburg and Pigeon Forge for FY17-18 through FY20-21. Increases, from \$2,500 to \$3,500, the maximum amount of sales and use tax refund for natural disaster claimants for a federally declared natural disaster that occurred between November 28, 2016, and December 9, 2016 in Sevier County. Establishes that purchases of major appliances, residential furniture, or residential building supplies used in a claimant's secondary residence that was damaged or destroyed as a result of the natural disaster are also eligible for the sales and use tax refund, in addition to those used in the claimant's primary residence.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Decrease State Revenue – \$3,242,900/FY17-18
 \$3,389,200/FY18-19
 Exceeds \$3,389,200/FY19-20
 Exceeds \$3,389,200/FY20-21

Increase State Expenditures – \$1,211,000/FY17-18

Increase Local Revenue – \$3,242,900/FY17-18
 \$3,389,200/FY18-19
 Exceeds \$3,389,200/FY19-20
 Exceeds \$3,389,200/FY20-21

The Administration's Budget Amendment for FY17-18 recognizes a non-recurring decrease in state revenue of \$3,200,000 and a non-recurring increase in state expenditures of \$3,350,000.

Assumptions for the bill as amended related to the state shared sales tax revenue:

- Pursuant to various subsections of Tenn. Code Ann. § 67-6-103, municipalities receive 4.603 percent of state sales tax revenue generated from the 5.5 percent state sales tax rate imposed on non-food goods and services and from the 4.5 percent state sales tax rate imposed on food and food ingredients. Such distributions are based on the municipalities' population relative to the aggregate population of all municipalities within the state.
- However, pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(B)(i), a municipality defined as a premier type tourist resort may elect to receive 4.603 percent of such taxes actually collected and remitted by dealers within the boundaries of such resort.
- Such resorts, pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(B)(ii) and (iii), that own a golf course and ski slope, or that contain within their boundaries a theme park of not less than 80 acres, shall also receive an additional amount equal to the amount above. Gatlinburg and Pigeon Forge qualify for such additional distributions.
- Finally, pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(B)(iv)(a) and (b), Gatlinburg shall also receive 90 percent of the amount distributed in FY86-87 pursuant to the 4.603 percent allocation, and Pigeon Forge shall also receive 96 percent of the amount distributed in FY86-87 pursuant to the 4.603 percent allocation.
- However, pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(B)(v), the abovementioned amounts shall be limited to the collective amounts paid under such provisions for the FY99-00. DOR reports that, under current law, such maximum is equal to \$2,080,560 for Gatlinburg and \$3,468,451 for Pigeon Forge, for a total of \$5,549,011.
- The proposed bill as amended will eliminate such limit for FY17-18 through FY20-21.
- The actual distributions to the two municipalities without the limit are estimated to be \$8,791,931 in FY17-18 (\$3,148,811 to Gatlinburg; \$5,643,120 to Pigeon Forge), \$8,938,176 in FY18-19 (\$3,203,693 to Gatlinburg; \$5,734,483 to Pigeon Forge), and to exceed \$8,938,176 in FY19-20 and in FY20-21.
- These numbers account for the food sales tax rate decrease, from five to four percent, enacted by the IMPROVE Act.
- The increase in local revenue, and a corresponding decrease in state revenue, is estimated to be \$3,242,920 in FY17-18 (\$1,068,251 to Gatlinburg; \$2,174,669 to Pigeon Forge), \$3,389,165 in FY18-19 (\$1,123,133 to Gatlinburg; \$2,266,032 to Pigeon Forge), and to exceed \$3,389,165 in FY19-20 and in FY20-21.

Assumptions related to the sales tax refund for natural disaster claimants:

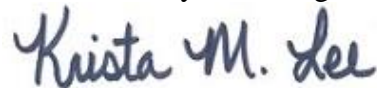
- Pursuant to Tenn. Code Ann. § 67-6-396, a person receiving disaster assistance through the federal emergency management agency (FEMA) for repair, replacement, or construction of the person's primary residence that was damaged or destroyed as a result of a natural disaster occurring in Tennessee is entitled to a refund equal to the total

amount of Tennessee state and local sales and use tax paid by the person on purchases of major appliances, residential furniture, or residential building supplies used in such primary residence. The maximum refund amount associated with any one residence is \$2,500. All refunds are paid from the state's General Fund and amount of sales and use tax payable to local governments is not to be reduced.

- This bill as amended will increase the maximum refund amount associated with any one residence to \$3,500, and will allow a person to claim an additional refund of sales and use taxes on purchases associated with the person's secondary residence. These provisions will only apply for damages incurred in the 2016 natural disaster that occurred in Sevier County.
- FEMA reports that 441 individual applications for disaster assistance have been approved. The deadline for such applications has passed.
- It is assumed that all of these individuals would apply and qualify for the maximum \$2,500 sales tax refund under current law and will apply and qualify for the proposed maximum of \$3,500. It is further assumed that 50 percent of such individuals, or 220, own a secondary residence for which a \$3,500 refund will be granted.
- The one-time increase in state expenditures in FY17-18 is estimated to be \$1,211,000 [(441 individuals x \$1,000 additional refund for primary residence) + (220 individuals x \$3,500 refund for secondary residence)].

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

/bs